

Message Text

CONFIDENTIAL

PAGE 01 TEL AV 06009 220949Z

17

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 EB-03 INR-05 SP-02 CIEP-01 PA-01

PRS-01 L-02 RSC-01 /037 W

----- 073736

R 220925Z OCT 74

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 4270

C O N F I D E N T I A L TEL AVIV 6009

LIMDIS

E.O.11652: GDS

TAGS: ECON, EFIN, ISVAM

SUBJECT: POSSIBLE DEVALUATION OF ISRAELI POUND

1. THERE IS GENERAL EXPECTATION THAT GOI WILL ANNOUNCE DEVALUATION OF ISRAELI POUND WITHIN NEXT FEW WEEKS OR AT LEAST BEFORE END OF YEAR. OBSERVERS ANTICIPATE NEW EXCHANGE RATE TO BE SET AT ABOUT SIX ISRAELI POUNDS TO U.S. DOLLAR, COMPARED TO PRESENT RATE OF IL 4.20 EQUALS \$1.00. DEVALAATION HAS BEEN RUMORED OFF AND ON OVER PAST YEAR OR TWO AS POUND BECAME INCREASINGLY OVERVALUED. END-OF-WEEK RUMORS OF DEVALUATION WERE FREQUENT DURING SUMMER, AND REACHED NEW EIGHTS LAST FRIDAY. AS RESULT, BLACK MARKET RATE FOR DOLLAR ROSE TO IL 5.20.

2. WE SHARE VIEW THAT DEVALUATION IS LIKELY BEFORE END OF YEAR. TOURISM AND FOREIGN INVESTMENT IN ISRAEL BADLY NEED A MORE REALISTIC EXCHANGE RATE. DEVALUATION WOULD ALSO PUT AN END

AT LEAST FOR A TIME, TO EXPECTATION OF DEVALUATION WHICH ITSELF IS A MAJOR CAUSE TO EXCESS DEMAND PRESSURES AND PROBABLY IS CAUSING POSTPONEMENT OF INVESTMENT IN ISRAEL. ON OTHER HAND, MINISTRY OF FINANCE HAS STEADFASTLY RESISTED DEVALUATION ARGUING THAT IT WOULD CONTRIBUTE TO ALREADY HIGH INFLATION RATE AND THAT THERE WOULD BE LITTLE TO GAIN IN FORM OF EXPANDED EXPORTS IN LIGHT OF ISRAEL'S LIMITED CAPACITY TO

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 TEL AV 06009 220949Z

EXPANDEXPORTS. IT IS ALSO POINTED OUT THAT EXISTING EFFECTIVE

EXCHANGE RATES FOR EXPORTS AND IMPORTS, I.E., MAXIMUM IL 6.04/\$1.00 EXISTS TO AN IMPORTANT DEGREE. WE NEVERTHELESS BELIEVE THAT WORSENING BALANCE OF PAYMENTS AND RESERVE POSITIONS ARE LIKELY TOTIP SCALES IN FAVOR OF DEVALUATION.

3. FURTHER CONSTRAINTS ON GOI DECISION ARE NATIONAL WAGE NEGOTIATIONS EXPECTED TO BEGIN IN JANUARY AND SCHEDULED IMPLEMENTATION VALUE-ADDED-TAX(VAT) APRIL 1975. ALTHOUGH VAT RATE STILL UNDETERMINED, ITS INITIAL IMPACT ON CPI WILL BE SUBSTANTIAL. FOR EXAMPLE, VAT OF TEN PERCENT WOULD TRIGGER ESTIMATED SIX PERCENT INCREASE CPI. THEREFORE, GOI WILL WANT TO SPACE OUT INFLATIONARY IMPACT BETWEEN DEVALUATION AND INAUGURATION OF VAT.
KEATI
NG

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEVALUATIONS, CURRENCIES
Control Number: n/a
Copy: SINGLE
Draft Date: 22 OCT 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TELAV06009
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740300-0828
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741025/aaaaavfu.tel
Line Count: 75
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 20 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 AUG 2002 by WorrelSW>; APPROVED <06 MAR 2003 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE DEVALUATION OF ISRAELI POUND
TAGS: ECON, EFIN, IS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005